Financial Institution Supervision and Credit
FEDERAL RESERVE BANK
OF SAN FRANCISCO

SUPERVISION IN BRIEF

A REGULATOR'S PERSPECTIVE ON ISSUES FACING 12TH DISTRICT BANKS

June 2018

Greetings!

During the first half of this year there have been several notable happenings here in the 12th District and throughout the Federal Reserve System. Below are highlights of a few of these items.

The Search Is On For the Next San Francisco Fed President – In April the board of directors of the Federal Reserve Bank of New York selected John Williams as the New York Fed's next president and chief executive officer. John has served as the San Francisco Fed president since March 2011, and during that time, his leadership, speeches, and research have helped to drive the national conversation on many important monetary policy and regulatory topics. We are thrilled that John has been named to this prestigious role, and we look forward to continuing to work with him on big initiatives within the System. John starts his new role in New York on June 18, and the San Francisco Fed's board of directors has begun the search for our next leader. Our board issued a press release that outlines the presidential search process and affirms its commitment to be inclusive and transparent. Periodic updates on the search committee's progress will be posted on the Bank's presidential search webpage. While the search is underway, Mark Gould, the San Francisco Fed's first vice president and chief operating officer, will serve as interim Bank president and chief executive officer in accordance with the Federal Reserve Act. In this role, Mark will represent the San Francisco Fed at the Federal Open Market Committee and ensure that all other Reserve Bank functions and responsibilities continue uninterrupted.

Regulatory Reform Update – As you are probably aware, last month Congress passed and the president signed the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) of 2018. Among other things, this law exempts small and regional banks with assets of $250 billion or less from being subjected to enhanced prudential standards (EPS) from the Federal Reserve. The threshold for EPS had been banks with assets of $50 billion or more. While many banks in our District will find regulatory relief under the new law, there are some important things to note that the law allows:

- At its discretion, the Federal Reserve can apply EPS to any specific bank with assets greater than $100 billion
- For banks with assets between $100 billion and $250 billion, periodic supervisory stress testing will continue
- For publicly traded banks with assets between $50 billion and $250 billion, the requirement for a risk committee remains intact

Banks with less than $10 billion in assets are exempted from many regulations under the law, including the Volcker Rule. Banks in this group are also exempted from some mortgage lending rules and heightened capital and leverage requirements, provided the institution holds enough equity. Banks with less than $5 billion in assets will benefit from streamlined Call Report rules while those with less than $3 billion in assets may see relief from extended examination cycles.

We are currently learning more about how our regulatory and supervisory programs will change – and this will take some time. As we learn more, you can expect that we will work with you to lessen any ambiguity on how to implement certain rules, clearly communicate our expectations and requirements, and continue our efforts to tailor those requirements, especially for smaller institutions. Ongoing dialogue with you will help us make meaningful progress here.

Changes at the Federal Reserve Board of Governors – Late last year, Randal Quarles took office as a member of the Board and was sworn in as the Fed's first-ever vice chairman for supervision. Since his confirmation, he has talked a lot about regulatory reform and his goal to ensure that regulations are not only appropriate for today's financial system, but are simple, transparent, and efficient. He shares more details about this view in his semiannual supervision and regulation testimony to Congress. In a recent speech here in California, he talked specifically about efficiency and simplicity in the context of his discussion on two of the Fed's capital proposals (the stress capital buffer and the enhanced supplementary leverage ratio). Here he makes the argument that changes to the capital requirements for some banks would maintain the resiliency of the financial system and make regulation simpler and more risk sensitive. I encourage you to check out those remarks here and in other speeches to get a sense of his thinking around these and other important monetary policy topics.

12th District Economic Conditions – Check out the latest issue of *First Glance 12L*, our quarterly report of 12th District banking conditions.

There will be more to come on the regulatory front, but until then, feel free to contact me with any questions or other feedback. I look forward to hearing from you.

Best regards,
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